

THE BRAEMORE GROUP

Financial Highlights

Year ended	December 25, 1976	December 27, 1975
Sales	\$ 47,088,000	\$ 36,597,000
Net earnings	\$ 597,000	\$ 27,000
Earnings per share	38¢	2¢
Working capital	\$ 4,939,000	\$ 4,412,000
Shareholders' equity	\$ 9,807,000	\$ 9,210,000
Shares outstanding	1,565,800	1,565,800

To our Shareholders

Canada experienced another year of generally depressed business conditions with high inflation and low consumer confidence in 1976. However, despite the sluggish economy, your Company enjoyed a decided improvement in sales and a significant increase in profits.

Sales rose to \$47 million, a 29 percent increase over the \$37 million in the previous year. Profits were \$597,000 or 38 cents per share compared with \$27,000 or 2 cents per share in 1975.

One of the key factors contributing to the growth in sales was the expanded production capacity for upholstered furniture put in place in 1975, the benefits of which were reflected in 1976.

However, while we achieved an improvement in earnings over the previous year, management does not consider the ratio of profit to sales satisfactory and will strive to implement further operating efficiencies to improve profit margins.

Outlook

Once again with subdued consumer confidence resulting from continued high rates of inflation, massive unemployment and political uncertainty, it is most difficult to be overly optimistic about the current fiscal year.

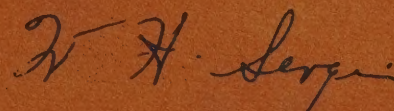
A sluggish demand for home furnishings, apparent late in 1976, has continued into the first quarter of 1977. However, an improve-

ment in the economy and an upturn in the housing market could result in a more positive performance for the balance of the current fiscal year.

Inflationary pressures in Canada seem to have lessened, presumably attributable to a general slackening in the economy, coupled with the apparent impact of the Anti-Inflation Program. We believe the demand for furniture in Canada and especially in Ontario will, over the long-term, show vigorous improvement, and we feel that the Company is in a good position to take advantage of this growth in terms of both sales and profits.

Appreciation

On behalf of the Board of Directors, I extend our thanks to all our people of The Braemore Group for their dedicated efforts during 1976 and to our customers for their continued loyalty. The greatly improved performance of the past fiscal year is the result of their combined contributions.



Chairman and
Chief Executive Officer

Toronto
April 18, 1977

Consolidated Statement of Earnings

For the year ended December 25, 1976

	1976 (\$,000)	1975 (\$,000)
SALES	\$ 47,088	\$ 36,597
EXPENSES		
Cost of sales and expenses	44,197	35,219
Depreciation and amortization	441	342
Interest on long-term debt	253	342
Interest on current debt	1,139	630
	<u>46,030</u>	<u>36,533</u>
EARNINGS BEFORE INCOME TAXES	1,058	64
Income taxes (note 1e)	410	27
	<u>648</u>	<u>37</u>
Minority interest in subsidiaries' earnings	51	10
NET EARNINGS	<u>\$ 597</u>	<u>\$ 27</u>
EARNINGS PER SHARE (note 5)	<u>\$0.38</u>	<u>\$0.02</u>

Consolidated Statement of Retained Earnings

For the year ended December 25, 1976

	1976 (\$,000)	1975 (\$,000)
Balance, beginning of year	\$ 2,718	\$ 2,691
Net earnings	597	27
Balance, end of year	<u>\$ 3,315</u>	<u>\$ 2,718</u>

Consolidated Statement of Changes in Financial Position

For the year ended December 25, 1976

	1976 (\$,000)	1975 (\$,000)
WORKING CAPITAL PROVIDED BY		
Net earnings before minority interest	\$ 648	\$ 37
Charges not requiring the current outlay of funds		
Depreciation and amortization	441	342
Deferred income taxes	182	(248)
Deferred charges	17	—
Funds from operations	1,288	131
Increase in long-term debt	196	166
	<u>1,484</u>	<u>297</u>
WORKING CAPITAL USED FOR		
Purchase of fixed assets (net)	738	696
Decrease in long-term debt	219	72
Deferred charges	—	15
Repayment of advances from parent — Strathearn House Group Limited	—	1,500
	<u>957</u>	<u>2,283</u>
INCREASE (DECREASE) IN WORKING CAPITAL	527	(1,986)
WORKING CAPITAL, BEGINNING OF YEAR	4,412	6,398
WORKING CAPITAL, END OF YEAR	<u>\$ 4,939</u>	<u>\$ 4,412</u>

Consolidated Balance Sheet

as at December 25, 1976

Assets	1976 (\$,000)	1975 (\$,000)
CURRENT		
Accounts receivable	\$ 10,331	\$ 10,001
Inventories (note 1b)	10,833	9,610
Prepaid expenses	233	152
	<u>21,397</u>	<u>19,763</u>
FIXED		
Land	224	224
Buildings	1,606	1,578
Equipment and leasehold improvements	6,716	6,098
Total, at cost	8,546	7,900
Accumulated depreciation (note 1c)	4,722	4,373
	<u>3,824</u>	<u>3,527</u>
OTHER		
Deferred charges	16	33
Deferred income taxes (note 1e)	109	291
Goodwill (note 1d)	3,341	3,341
	<u>3,466</u>	<u>3,665</u>
	<u>\$ 28,687</u>	<u>\$ 26,955</u>

Auditors' Report

To the shareholders,
House of Braemore Furniture Limited.

We have examined the consolidated balance sheet of House of Braemore Furniture Limited as at December 25, 1976, and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Toronto, Canada,
March 4, 1977.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 25, 1976, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

WM. EISENBERG & CO.
Chartered Accountants

Liabilities	1976 (\$,000)	1975 (\$,000)
CURRENT		
Bank indebtedness (note 2)	\$ 4,598	\$ 5,988
Bankers' acceptances (note 2)	6,000	1,000
Accounts payable and accrued charges	5,114	7,811
Income taxes payable	212	21
Due to parent — Strathearn House Group Limited	341	470
Current portion of long-term debt (note 3)	193	61
	<u>16,458</u>	<u>15,351</u>
LONG-TERM DEBT (note 3)	<u>2,058</u>	<u>2,081</u>
MINORITY INTEREST	<u>364</u>	<u>313</u>
Shareholders' Equity		
SHARE CAPITAL (note 4)		
Authorized		
3,000,000 Common Shares without par value		
Issued		
1,565,800 Common Shares	6,492	6,492
RETAINED EARNINGS	<u>3,315</u>	<u>2,718</u>
	<u>9,807</u>	<u>9,210</u>
	<u>\$ 28,687</u>	<u>\$ 26,955</u>

On behalf of the board

W. H. Singer, Director W. Posluns, Director

The accompanying notes form an integral part of the financial statements.

Notes to Consolidated Financial Statements

as at December 25, 1976

1. Accounting Policies**a. Basis of consolidation**

The consolidated financial statements include the accounts of the following subsidiaries:

Wholly-owned

The Hespeler Furniture Company Limited
 (including its division, American Frame)
 Singer Lighting Co. Ltd.
 Troister & Company Limited
 Emanuel Products Limited
 Roti Wood Products (Fergus) Limited
 COSF Products Limited
 (including its division, Standard Upholstery Company)
 Willison Wood Products Company Limited

Partially-owned

Thompson-Heyland Limited (60% owned)
 Braemore Convertibles Limited (51% owned)

All significant inter-company loans and transactions have been eliminated on consolidation.

b. Inventories

Inventories are valued at the lower of cost (first-in, first-out basis) and net realizable value, and consist of:

	1976 (\$,000)	1975 (\$,000)
Raw materials	\$ 5,726	\$6,038
Work-in-progress	1,281	1,079
Finished goods	3,826	2,493
	<u>\$10,833</u>	<u>\$9,610</u>

c. Depreciation

Depreciation is provided on a straight-line basis at rates which are designed to write off the assets over their estimated useful lives as follows:

Buildings	2½%
Equipment and leasehold improvements	10%-33⅓%
Automotive	25%

d. Goodwill

Goodwill represents the excess of the cost of subsidiaries over their net tangible assets at the date of acquisition. Goodwill acquired subsequent to April 1, 1974 will be amortized to earnings by the straight-line method over the estimated life of such goodwill for a period not exceeding 40 years. (1976 amortization — \$675; 1975 — \$675). It is not the present intention of the Company to amortize the goodwill acquired prior to April 1, 1974.

e. Deferred income taxes

	1976 (\$,000)	1975 (\$,000)
i. Income taxes provided in respect of timing differences between accounting and taxable income	\$232	\$211
ii. Income tax reductions which are expected to be realized in future years by carrying forward losses of subsidiaries. In the view of management, these reductions are virtually certain to be realized	(341)	(502)
	<u>(\$109)</u>	<u>(\$291)</u>

2. Bank Indebtedness

The bank indebtedness and bankers' acceptances are secured by a pledge of book debts and inventories.

3. Long-Term Debt

	1976 (\$,000)	1975 (\$,000)
10.7% Industrial Development Bank loan, due April, 1979, secured by mortgages	\$ 84	\$ 120
10% Mortgage payable, due October, 1977	13	13
Promissory notes		
Prime plus 1%, due April, 1979 (note 4)		
— Directors and officers	1,225	1,225
— Other	275	275
Non-interest bearing, due April, 1977	83	83
8½%, due August, 1981	229	229
Finance company notes, secured by chattel mortgages	279	197
Other	63	—
	<u>2,251</u>	<u>2,142</u>
Due within one year	193	61
	<u>\$2,058</u>	<u>\$2,081</u>

4. Share Capital

Subscription warrants attached to the promissory notes due April, 1979 aggregating \$1,500,000 (note 3) are outstanding and entitle the holders to subscribe for a total of 75,000 common shares from treasury at \$5.00 per share. These warrants may be exercised at any time prior to the maturity date of the notes and expire on that date.

5. Earnings Per Share

The dilutive effect on earnings per common share of giving effect to the exercise of the warrants attached to the promissory notes (note 4) and of imputing interest at a rate equivalent to that payable on the notes, would be less than one cent per common share.

6. Lease Commitments

Aggregate minimum rentals of properties are as follows:

	(\$,000)
Year ended December 31, 1977	\$ 658
The next four years	1,598
1982 to 1997	1,478
	<u>\$3,734</u>

7. Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid or payable by the Company and its subsidiaries to the directors and senior officers of the Company during the current year amounted to \$670,000 (1975 — \$634,000).

Notes to Consolidated Financial Statements

as at December 25, 1976

8. Pension Benefits

The Corporation is obligated under an agreement with a retired director and senior officer for the payment of \$35,000 per annum to 1983. This amount will be charged to annual earnings over the term of the agreement.

9. Anti-Inflation Legislation

The Companies are subject to restraint of profit margins, prices, dividends and compensation under the terms of the Anti-Inflation Act and Regulations.

Directors

M. FAITH
Vice-President, Emanuel Products

E. FINE
Vice-President, Braemore Furniture

S. GOSSIN
Vice-President, Emanuel Products

M. HANDELMAN
Vice-Chairman of House of Braemore
Furniture Limited

J. F. KAY
Chairman of the Board of Dylex Limited

I. A. POSLUNS
Executive Vice-President of Dylex Limited

J. I. POSLUNS
Executive Vice-President and
Treasurer of Dylex Limited

*W. POSLUNS
President of Dylex Limited

*S. M. SIGEL
Partner, Messrs. Stitt, Baker & McKenzie,
Solicitors

W. H. SINGER
Chairman and Chief Executive Officer of
House of Braemore Furniture Limited
President and Chief Executive Officer of
Strathearn House Group Limited

P. TANE
Vice-President, Standard Upholstery

H. VOGEL
Vice-President, Braemore Furniture

H. K. WEINER
President of House of Braemore Furniture
Limited

*A. H. ZALDIN, Q.C.
Senior Partner, Messrs. Zaldin and Fine, Solicitors

* *Member of the audit committee*

Officers

W. H. SINGER
Chairman of the Board and Chief Executive Officer

M. HANDELMAN
Vice-Chairman of the Board

H. K. WEINER
President

W. POSLUNS
Secretary and Treasurer

M. FAITH
Vice-President

E. FINE
Vice-President

S. GOSSIN
Vice-President

J. F. KAY
Vice-President

I. A. POSLUNS
Vice-President

J. I. POSLUNS
Vice-President

H. NEUDEL
Vice-President

P. TANE
Vice-President

H. VOGEL
Vice-President

Transfer Agent and Registrar
CROWN TRUST COMPANY

Auditors
Wm. EISENBERG & CO., Chartered Accountants

Bankers
BANK OF MONTREAL

Listed On
TORONTO STOCK EXCHANGE

Executive Offices
637 Lakeshore Boulevard West, Toronto, Canada
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